

# Kentucky Tax Alert

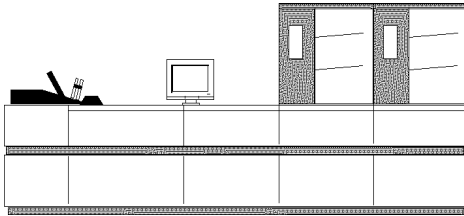


A KRC PUBLICATION FOR THE TAX PROFESSIONAL

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## KRC Begins Use of Scanning and Imaging System

In September, KRC began processing K-1s through its new scanning and imaging system. KRC will begin processing remaining withholding returns and the sales and use tax returns within the next several weeks.



To ensure that submitted forms will be compatible with the new processing system, preparers should:

- File only the original return mailed by KRC. The scanner may not be able to recognize a copy of the return.
- Write numbers legibly inside the boxes provided. Either hand-printed or machine printed-numbers are acceptable. Slashes should not be placed through zeros or sevens.
- Use black ink.
- Right justify the numbers.
- Not use commas, decimal points, or dollar signs.
- Leave any lines blank on which there is no activity to report. Do not enter zeros or draw a line through the boxes.
- Not attach anything to the return with staples, paper clips, or by any other means.
- Place the return in the envelope so that the address shows through the window.
- Place information that is not requested on the form, but needs to be conveyed, on a separate sheet and include it with the return.
- Not write over the right angle reference mark and form number near the bottom left corner on the front or back of the return. Write only numbers in the areas designated by boxes to the right of the line descriptions.

## Taxable Status of Funds Received from National Tobacco Settlement

Kentucky's tobacco farmers, quota owners, and producing landowners will ultimately share nearly \$113 million dollars in the first year of payments from the Kentucky Tobacco Settlement Trust Corporation.



KRS 141.010(10)(o) exempts from Kentucky income tax any income from the settlement. The exemption applies to individuals, partners in a partnership, and shareholders in an S corporation. The referenced statute does not exempt settlement funds received by C corporations. However, two bills have been prefiled for consideration by the 2000 General Assembly that would exempt the income if received by a C corporation.

It is anticipated that the Trust Corporation will distribute such funds directly to qualified individuals on or before Dec. 31, 1999. Any check mailed to recipients with a postmark on or before Dec. 31, 1999, will constitute income received in 1999. Any settlement fund income received and reported on the 1999 federal return, Form 1040, should be subtracted from federal adjusted gross income on the Kentucky return, Form 740. Use new Schedule M, Line 13.

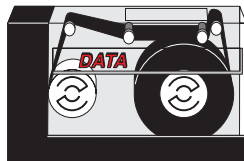
### Table of Contents

KRC Begins Use of Scanning and Imaging System .....	1
Taxable Status of Funds Received from National Tobacco Settlement .....	1
Guidelines for Electronic Filing of Wage and Tax Information .....	2
KRC Stresses Importance of Using Approved 1999 Tax Forms .....	2
Electronic Commerce Notes of Interest .....	3
Standard Deduction Pension Exclusion Increase for 1999 Tax Year .....	3
Registration for Corporation Numbers Now Available at KRC's Taxpayer Service Centers .....	4
KRC Again Using Bar-Coded Labels on Individual Income Tax Returns .....	5
Four Taxpayer Service Centers in New Area Code 270 .....	5
Estimated Tax Payment Deadlines .....	5
Employers Encouraged to Release Forms W-2/K-2 Early ..	5
Income Tax Seminars Scheduled in December .....	6
Court Case Updates .....	7
Pikeville Taxpayer Service Center Relocates .....	7

## Guidelines for Electronic Filing of Wage and Tax Information

Regulation 103 KAR 18:050, Section 5, requires any employer who issues more than 250 W-2 forms annually to use an acceptable form of magnetic media. Employers issuing fewer than 250 W-2 forms are encouraged, but not required, to use magnetic media filing.

Kentucky accepts 3480 cartridges (18 track, 38,000 b.p.i., with or without IDRC compression), 3490 cartridges (36 track, 76,000 b.p.i. compression drive), and 3.5-inch diskettes only. Kentucky does not accept 9 track reels (800,1600, 3600, and 6250 b.p.i.).



File Transfer Protocol (FTP) is a new method of reporting annual employee wage and tax information electronically. KRC has designed a software program, provided to employers at no cost, to provide the FTP functionality the employer needs. FTP streamlines the processing of the wage and tax information and offers an easy, secure way to meet filing requirements. For information regarding participation in the FTP method of electronically reporting wage and tax information, contact Bradley Carroll at (502) 564-6033, ext. 4800 or E-mail [Brad.Carroll@mail.state.ky.us](mailto:Brad.Carroll@mail.state.ky.us).

KRC follows the Social Security Administration's specification format TIB-4, and will use this format until the mandated date for use of the MMREF-1 (tax year 2001, due Jan. 31, 2002). The record requirements for Kentucky from the **TIB-4** are as follows:

### 3480 and 3490 Cartridges:

Code A—Transmitter Record  
Code B—Basic Information  
Code E—Employer Records  
Code S—Supplemental Records  
(Required for Kentucky)

### 3.5" Diskette:

Code 1A and 2A—Transmitter Record  
Code 1B and 2B—Basic Information Records  
Code 1E and 2E—Employer Records  
Code 1S and 2S—Supplemental Records  
(Required for Kentucky)

Cartridges and diskettes will be returned unprocessed if they contain internal labels, improper formatting, or incorrect record codes.

All wage and tax statement information (paper W-2s, computer lists, and magnetic media) shall be submitted with transmitter report 42A806 (revised 11-98). Transmitter report 42A806 is mailed to all withholding tax accounts along with the year-end Annual Reconciliation Return (K-3 or K-3E). Photocopies of the transmitter report are acceptable. If the transmitter report is misplaced, call the Withholding Tax Section at (502) 564-7287 to receive a fax copy. The

transmitter report should be filed with the wage and tax statement information, to the appropriate address for paper filers or magnetic media filers, as stated on the transmitter report. **Do not send wage and tax statement information with the Annual Reconciliation Return (K-3 or K-3E).** Wage and tax statement information for tax year 1999 is due Jan. 31, 2000, the same time the Annual Reconciliation Return and final payment for the year are due, but they should be mailed separately. A preaddressed return envelope is provided for returning the Annual Reconciliation Return and final payment for the year.



There are thresholds for requiring the remittance of tax payments for withholding tax via electronic funds transfer (EFT). KRC notifies business entities when they reach these thresholds. All other employers are encouraged to voluntarily pay their withholding taxes via EFT. KRC allows both credit and debit methods of payment for EFT customers. Many businesses find this a convenient and efficient way to remit their tax payments. Employers who **voluntarily** remit their tax via EFT, file a quarterly reconciliation return (K-1E). This is a **substantial reduction** in the number of returns required to be filed, from 12 (monthly) or 23 (twice monthly) to four (quarterly) per year. Applications for EFT participation may be obtained by contacting the EFT Group at (502) 564-6020.

## KRC Stresses Importance of Using Approved 1999 Tax Forms

Kentucky's 1999 individual income tax forms have a new look. The changes are not only cosmetic, but functional as well. The forms were redesigned to work with new scanning and imaging equipment which will speed up processing of returns.

It is vital that tax preparers use only forms provided by KRC, or produced by approved computer software packages. Data must be placed in specific areas of the return to be read correctly by the new equipment. Use of photocopies or fax copies may delay processing and, in turn, delay refunds.

The new scanning and imaging equipment is part of KRC's **EMPOWER Kentucky** initiative to improve tax processing efficiency.

Faster and more efficient processing of tax returns benefits everyone.



## Electronic Commerce Notes of Interest

### Electronic Filing (ELF) of Tax Returns

In cooperation with the Internal Revenue Service (IRS), KRC will offer



electronic filing of individual income tax returns for the 1999 tax year. Authorization for electronic filing of Kentucky full-year resident returns is available to all interested preparers who:

- (1) are accepted in the federal electronic filing program;
- (2) transmit returns to the Tennessee Computing Center;
- (3) use software approved for Kentucky electronic filing; and
- (4) pass KRC suitability checks.

Preparers who wish to participate in the coming year should submit federal Form 8633, *Application to Participate in the Electronic Filing Program*, to the IRS. The sooner the application is submitted, the sooner the preparer will receive authorization to participate in the program. KRC does not require a separate application.

Persons who wish to obtain a copy of KRC's handbook for electronic filers may call (502) 564-5370. This publication may also be downloaded from KRC's Web site at <http://www.state.ky.us/agencies/revenue>.

Form 8453-K is the signature portion of the electronic return. It must be completed and signed by all appropriate parties before the return is transmitted electronically. Form 8453-K:

- authenticates the return;
- authorizes the electronic return originator (ERO) to file the return electronically on behalf of the taxpayer;
- serves as a transmittal for the associated nonelectronic documents that will be stapled to Form 8453-K; and
- authorizes KRC to inform the ERO whether a taxpayer's return has been accepted.

In a new development for the 2000 filing season, preparers can select the frequency of mailing completed Forms 8453-K to KRC. Every ERO will receive an 8453-K Mailing Election Form that should be completed and returned to KRC. The 8453-K Mailing Election Form will allow the ERO the option of electing to mail completed Forms 8453-K:

- (a) once electronic return acknowledgment is received from KRC,
- (b) monthly,
- (c) quarterly, or
- (d) at the end of the filing season.

### Electronic Funds Transfer (EFT)

KRC accepts the electronic transfer of funds for payment of sales and use, withholding, and bank franchise taxes. KRC offers both debit and credit payment options for each of these tax types. Detailed instructions for payment by either of these methods will be sent to all new registrants. Taxpayers who wish to participate in this program should register with KRC's Electronic Commerce Group (ECG). To obtain an application, or for additional information, please contact the ECG at (502) 564-6020 (voice) or (502) 564-9897 (fax).

Common EFT errors include:

- Incorrect period end date is transmitted. The period end date is the last date of the reporting period, not the due date of the return.
- Account number and/or tax type is incorrect. Make sure the account number entered is the correct account number for the type tax being paid.
- Information formatted incorrectly.
- Money submitted via wire transfer without authorization.



## Standard Deduction Pension Exclusion Increase for 1999 Tax Year



For the 1999 tax year, Kentucky's standard deduction for individual income tax increases from \$1,200 to \$1,500. The standard deduction is claimed by persons who choose not to itemize deductions on their individual income tax return. A large percentage of low income taxpayers use the standard deduction.

For the tax year 2000 and forward, the standard deduction will be \$1,700.

For the 1999 tax year, the pension exclusion increases to \$35,700, pursuant to KRS 141.0105, which allows KRC to adjust the amount of the exclusion annually for inflation. For the 2000 tax year, the pension exclusion increases to a maximum of \$36,414.

## Registration for Corporation Numbers Now Available at KRC's Taxpayer Service Centers

Registration for corporation tax numbers is now available at KRC's 11 taxpayer service centers (TSCs) located throughout the state. KRC provides assistance to the commonwealth's taxpayers for all taxes KRC administers at its field offices. Taxpayers can resolve multiple issues with one contact at a TSC.

The TSCs promote voluntary compliance with the tax laws by providing quality assistance to individuals and the business community. Each TSC has managerial staff, support staff, field representatives, and field auditors. As part of KRC's team, they provide taxpayer assistance and administer various KRC compliance programs.

KRC offers the following services at its TSCs:

- answering tax inquiries via walk-in or telephone;
- providing taxpayer education;
- offering tax forms;
- registering for Kentucky sales and use tax, withholding tax numbers, and corporation tax numbers;
- assigning temporary sales tax numbers for special events;
- correcting taxpayer account information on KRC databases;
- assisting in the filing of Kentucky tax returns;
- adjusting and collecting tax bills;
- setting up payment agreements for unpaid tax bills; and
- auditing Kentucky individual and business tax returns.



TSCs provide taxpayers a place to make personal contact to discuss and resolve issues relating to taxation, and receive information regarding Kentucky's tax laws.

TSC locations are:

### **Ashland, 41105-0687**

P.O. Box 687  
134 16th Street  
Telephone: (606) 920-2037  
Fax: (606) 920-2039

### **Bowling Green, 42101-2040**

P.O. Box 2040  
1502 Westen Street  
Telephone: (270) 746-7470  
Fax: (270) 746-7847

### **Corbin, 40702-3298**

P.O. Box 1298  
Falls Road Plaza, Suite 5  
1707 18th Street  
Telephone: (606) 528-3322  
Fax: (606) 523-1972

### **Hazard, 41702-4194**

P.O. Box 419  
233 Birch Street  
Telephone: (606) 435-6017  
Fax: (606) 435-6018



### **Hopkinsville, 42241-0695**

P.O. Box 695  
105 Hammond Plaza  
4011 Ft. Campbell Blvd.  
Telephone: (270) 889-6521  
Fax: (270) 889-6563

### **Lexington, 40507-1556**

301 East Main Street  
Suite 500  
Telephone: (606) 246-2165  
Fax: (606) 246-2164

### **Louisville, 40202-2446**

620 South Third Street  
Suite 102  
Telephone: (502) 595-4512  
Fax: (502) 595-4205

### **Northern Kentucky**

Turfway Ridge Office Park  
7310 Turfway Road, Suite 190  
Florence, KY 41042  
Telephone: (606) 371-9049  
Fax: (606) 371-9154

### **Owensboro, 42302-0128**

P.O. Box 128  
401 Frederica Street, Building C, Suite 201  
Telephone: (270) 687-7301  
Fax: (270) 687-7244

### **Paducah, 42002-2336**

P.O. Box 2336  
555 Jefferson Street, Suite 306  
Telephone: (270) 575-7148  
Fax: (270) 575-7027

### **Pikeville, 41501**

Uniplex Center  
126 Trivette Drive, Suite 203  
Telephone: (606) 433-7675  
Fax: (606) 433-7679



## KRC Again Using Bar-Coded Labels on Individual Income Tax Returns

For the 1999 individual income tax filing season, KRC is again using preprinted, bar-coded address labels. These labels are used in conjunction with KRC's Automated Refund and Tax Information System (ARTIS), which allows taxpayers to verify that KRC received their returns and to check on the status of refunds by touch-tone telephone.

With the bar-coded labels, KRC reduces the amount of time required to acknowledge receipt of a taxpayer's return from eight weeks to as short a time as 24 hours. The amount of manual data entry required for individual income tax returns is reduced by use of the labels, resulting in faster processing.

Two preprinted labels are included with the tax packets or label postcards KRC mails to taxpayers. Each label contains the taxpayer's name and address embedded in a scannable bar code. In response to taxpayer concerns and federal regulations, the taxpayer identification number is not visible on the labels mailed to taxpayers.

Use of the bar-coded labels does **not** increase the likelihood of a taxpayer being audited by KRC.

Upon receipt of an individual income tax return, KRC scans the bar-coded label and the information is uploaded to ARTIS. Taxpayers may then call ARTIS at (502) 564-1600 to verify that KRC received the return. Acknowledgment is available within 24 hours for taxpayers using both labels, and within 72 hours during peak times. For taxpayers not using both labels, information from ARTIS is not available until the return is processed.

Taxpayers receiving labels with an incorrect address may use these labels, but should correct the address on the label. Taxpayers receiving address labels with an incorrect name should not use the labels. They should instead print the requested information in the space provided on the return.

Taxpayers whose addresses have changed in the past year may contact KRC's Frankfort office or any taxpayer service center to record their address change so they may receive a preprinted label.



JOHN Q. PUBLIC  
1234 MAIN STREET  
ANYTOWN KY 00000



## Four Taxpayer Service Centers in New Area Code 270

All telephone calls to the Bowling Green, Hopkinsville, Owensboro, and Paducah taxpayer service centers (TSCs) must now be dialed using the new 270 area code which has been assigned to a

large portion of south-central and western Kentucky. The seven-digit telephone and fax numbers for these four TSCs remain the same; only the area code changed.

Only the following 13 counties previously in the 502 area code are still included in that area code: Anderson, Bullitt, Carroll, Franklin, Henry, Jefferson, Nelson, Oldham, Owen, Scott, Shelby, Spencer, and Trimble. All other counties formerly in area code 502 are now in area code 270.



## Estimated Tax Payment Deadlines

Taxpayers are reminded that final 1999 estimated individual income tax payments of 25 percent are due on Jan. 18, 2000. Final 1999 estimated corporation income tax payments of 25 percent are due on Dec. 15, 1999.

Taxpayers who have not yet made their April 15, June 15, or Sept. 15, 1999, estimated payments should submit those payments as soon as possible to minimize underestimation penalties.

## Employers Encouraged to Release Forms W-2/K-2 Early

In an effort to speed the issuance of individual income tax refunds, employers are encouraged to release Employee's Wage and Tax Statements, Forms W-2/K-2, at the earliest possible date. This allows taxpayers to file their income tax returns earlier, thereby avoiding backlogs and delays of refunds. Fewer returns are filed at the beginning of the tax season than near the April 15 deadline. By increasing the number of tax returns filed early, refunds can be processed more efficiently.



## Income Tax Seminars Scheduled In December

Both the University of Kentucky and the University of Louisville have income tax seminars scheduled in December.

The University of Kentucky College of Agriculture has eight two-day seminars tentatively scheduled during December.

The registration fee is \$185 per person. Every participant receives a copy of the workbook, a Master Tax Guide, the KRC workbook, and various Internal Revenue Service publications.

The Kentucky Board of Accountancy has approved the seminars for 16 hours of CPE credit. Attorneys must apply directly to the Kentucky Bar Association for CLE credit.



Registration brochures were mailed in mid-September to anyone who attended a tax workshop in the past two years. Brochures are also available in local county extension offices, or can be obtained by contacting the Department of Agricultural Economics, University of Kentucky, 400 Agricultural Engineering Building, Lexington, KY 40546-0276, (606) 257-7292.

Workshop dates and locations are listed below.

The University of Louisville's 47<sup>th</sup> annual Louis A. Grief Tax Institute will be held on Dec. 15-17, 1999, at the University of Louisville. Registration is \$150 before Dec. 1, 1999, and 24 hours of CPE credit and 19.25 of CLE credit are provided. For more information, call the University of Louisville at (502) 852-5847.

### DATE

### LOCATION

**Dec. 1-2**

Maysville  
French Quarter Suites, 25 E. McDonald Parkway

**Dec. 1-2**

Paducah  
JR's Executive Inn, One Executive Blvd.

**Dec. 6-7**

Bowling Green  
University Plaza Hotel, 1021 Wilkinson Trace

**Dec. 6-7**

Northern Kentucky (Burlington)  
Boone County Extension Office, 6028 Camp Ernst Rd.

**Dec. 8-9**

Louisville  
Hyatt Regency, 320 West Jefferson

**Dec. 14-15**

Owensboro  
Executive Inn, 1 Executive Blvd.

**Dec. 14-15**

Somerset  
Center for Rural Development, 2292 South Highway 27

**Dec. 16-17**

Lexington  
Marriott's Griffin Gate, 1800 Newtown Pike



## Court Case Updates

**Controlled Substances Excise Tax**—On June 1, 1999, the United States Supreme Court entered an order declining to review the Kentucky Supreme Court's decision of **Commonwealth v. Bird**, Ky., 979 S.W.2d 915 (1998). In this case, the Kentucky Supreme Court held that a criminal defendant's payment of the Kentucky controlled substance excise tax did not constitute criminal punishment that would bar a subsequent criminal drug prosecution under the United States and Kentucky constitutions' double jeopardy clauses. With the United States Supreme Court's action, **Commonwealth v. Bird** is final.

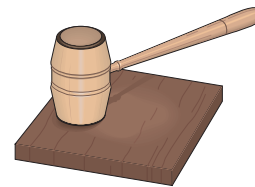
**Sales and Use Tax**—On Sept. 15, 1999, the Kentucky Supreme Court denied KRC's motion for discretionary review of the Court of Appeals' opinion in **Revenue Cabinet v. Humana, Inc.**, 1997-CA-000568-MR. The Court of Appeals held in that opinion that the exemptions specified in KRS 139.472 for prescription drugs and prosthetic devices and physical aids applied to for-profit hospitals' purchases of items used in their rendition of professional medical services. The court held that KRS 139.472 was ambiguous and its meaning therefore controlled by a prior KRC administrative interpretation.

By virtue of the Kentucky Supreme Court's denial of the motion for discretionary review, the opinion of the Court of Appeals is final.

On Aug. 26, 1999, the Kentucky Supreme Court granted KRC's motion to modify its decision in **Revenue Cabinet v. Kentucky-American Water Co.**, Ky., 997 S.W.2d 2 (1999). The modifications did not affect the finality of the original opinion and were made for clarification purposes only.

The original decision, which is now final, held that a 1,197 mile long water distribution system was not exempt from sales and use tax as machinery for new and expanded industry under KRS 139.480(10). The Supreme Court held that for the machinery for new and expanded industry exemption to apply, the machinery in question must be used directly in a manufacturing or processing production process, and installed in a plant facility.

The court also held that the energy exemption did not apply because the water distribution system was not engaged in manufacturing and that the water distribution system did not constitute *one location* as required by KRS 139.480(3).



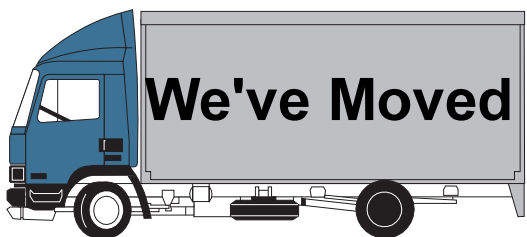
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## Pikeville Taxpayer Service Center Relocates

On Oct. 26, 1999, KRC's Pikeville Taxpayer Service Center moved from North Mayo Trail to downtown. The new address is: Uniplex Center, 126 Trivette Drive, Suite 203, Pikeville, KY 41501.

The telephone number, (606) 433-7675, remains the same. The fax number, (606) 433-7679, also remains the same.

Taxpayers in Pikeville and the surrounding areas who need assistance with Kentucky tax issues are encouraged to visit KRC's new location at the Uniplex Center where a knowledgeable and courteous staff is ready and willing to help.



**Kentucky Tax Alert** is a bimonthly publication printed on recycled paper, the costs of which are paid from state funds.

Comments, suggestions and mailing list additions or corrections should be addressed to the Public Information and Communication Services Branch, Revenue Cabinet, Station 14, Frankfort, Kentucky 40620, (502) 564-4592.

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KRC can be found on the World Wide Web at  
<http://www.state.ky.us/agencies/revenue>

COMMONWEALTH OF KENTUCKY  
REVENUE CABINET  
FRANKFORT, KENTUCKY 40620

Kentucky Revenue Cabinet  
Mission Statement

To provide courteous, accurate  
and efficient services for the benefit of  
Kentucky and its citizens, and admin-  
ister the tax laws of the Common-  
wealth in a fair and impartial manner.

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